Syllabus for LECON2608
Advanced Labor Economics

Economics School of Louvain (ESL)

First term of academic year 2020-2021

Course Description

It is widely accepted that the labor market does not function as a standard purely competitive market. Hall and Krueger write in *the American Economic Journal: Macroeconomics* (2012, Vol 4, p. 56): "Labor is one of the most heterogeneous products traded in a modern economy. The competitive market for a commodity, where all units are interchangeable and all trade for the same price, could hardly be a worse description of the labor market. No Walrasian auctioneer determines the wage". LECON2608 discusses why actual labor markets are often more complex than the convenient competitive framework. It advances four main channels: (1) firms' market power and employees' bargaining power (due to turnover costs, investment, institutions, unionization); (2) uncertainty and risk aversion with incomplete insurance markets; (3) imperfect and asymmetric information; (4) decision makers who do not behave as self-interested rational agents (channel including "social preferences", "social norms",…).

A selection of the following topics will be covered during the course:

- Job search
- Equilibrium unemployment
- Collective Bargaining
- Contracts, risk-sharing and incentives
- Insurance policies

The course consists of lectures. The topics will be introduced during the lectures. Reading assignments are also possible. If this happens, students are expected to come to class having read the assigned documents and ready to participate in discussion. *Due to the coronavirus crisis, the lectures will be organized on the campus of Louvain-la-Neuve or online*.

The objective of the course is to develop graduate students' abilities in acquiring a better understanding of the functioning of labor markets on the basis of the recent literature of the profession. This literature is usually formulated in terms of formal mathematical models. The lectures aim at helping the student to use and understand the intuition of these formal models as tools for the analysis of the labor market. Students should understand the functioning of these models, their main implications and shortcomings. Students should also confront the predictions of these models with the available empirical evidence. Therefore, the course introduces students to the recent advances in empirical labor economics.

There will also be some individual homework assignments that you will be asked to hand in.

Teaching: Instructor and Support

Instructors:

Bruno Van der Linden (bruno.vanderlinden@uclouvain.be), IRES, Collège Dupriez, 3 place Montesquieu, office D-108 (1st floor). Office hours by appointment.

Class Meetings:

Wednesdays 4:15 - 6:15 pm during the **first** term.

Classroom:

LECL73 Collège Jacques Leclercq, Place Montesquieu, 1, 1348 Louvain-la-Neuve.

Slides, Exercises, compulsory readings are or will be available on the course Webpage at http://moodleucl.uclouvain.be/enrol/index.php?id=7807

Information about Moodle is available at http://moodleucl.uclouvain.be/

The course uses the following *textbooks*:

> Cahuc, Pierre, Carcillo Stéphane and André Zylberberg (2014), Labor Economics, London, England: The MIT Press. (Two copies should be available at the library, place Montesquieu https://uclouvain.be/fr/bibliotheques/bspo). See also the Webpage of the textbook: http://www.labor-economics.org The earlier version Cahuc-Zylberberg (2004) of the same book is a valid alternative for several chapters.
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> Garibaldi, Pietro (2006), Personnel Economics in Imperfect Labour Markets, Oxford University Press.
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> Boeri, Tito, and Jan van Ours (2013), The Economics of Imperfect Labor Markets, 2nd edition, Princeton University Press.

In addition various scientific papers are used. Their list is provided in the slides.

There is no teaching assistant.

Prerequisites

This course is accessible to students of the Research Masters in Economics and in Econometrics and to PhD Students of the Economics School of Louvain. Students enrolled in similar programs in other universities are welcome as well. They should contact bruno.vanderlinden@uclouvain.be. Students of Master Programs jointly organized with the Economics School of Louvain should look at the rules governing their specific program. Students of Professional Masters in Economics of the Economics School of Louvain should contact bruno.vanderlinden@uclouvain.be.

Prerequisites are :

- Economics: A course in microeconomics
- Math: A course in algebra and some familiarity with calculus and, especially, with the concept of derivatives.
- Econometrics: It is assumed that students have at least a basic knowledge in econometrics.

Although it is not a prerequisite, some students have already followed an introduction to labor economics at the undergraduate level or in a professional master ("LECON2051 Travail,

chômage et politiques d'emploi" is an example at the ESL). If not, the student should be aware that some basic topics in labor economics are not covered by LECON2608: labor supply, labor demand and human capital theory in particular. Often, they have to some extent been introduced in a course in microeconomics or in macroeconomics. It is assumed that students have at least a basic knowledge about static labor demand and supply, perfect competition theory. Having heard about compensating wage differentials and human capital theory is an advantage but not a prerequisite.

Evaluation

We opt for a continuous evaluation. More precisely:

1. The course material of the lectures will be evaluated on the basis of a written open-book final exam during the regular examination period. Questions may relate to topics discussed during the lectures, the homework assignments, other exercises provided along the term, and the compulsory readings. The exam aims at evaluating whether students are able to construct a coherent and critical argumentation of labor market issues treated in the lectures. It will also gauge whether the students understand the logic of arguments within formal economic models and whether they can use these models. Being able to interpret correctly empirical results is also essential.

2. Approximately each week, there will be one homework assignment. Typically, you will have to solve (an) exercise(s). You could also have to read a paper. Producing a hand-written note is fine (i.e. no need to type your answer). Solutions to exercises will be provided afterwards. *Solving these exercises is an excellent preparation for the exam*.

Grading is based on the following weights:

Homework assignments:	40%
Final exam:	60%

You are allowed to present the final exam twice during a single academic year. If you fail at the first occasion the weight attached to the second final exam will be 100% *if* this improves your final result.